

Message Text

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ACTION ARA-14

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AMEMBASSY QUITO
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SUBJ: MORALES BERMUDEZ NATIONAL DAY MESSAGE

SUMMARY: PRESIDENT MORALES BERMUDEZ DELIVERED AN 80-MINUTE MESSAGE TO THE NATION CARRIED ON NATIONAL TV AND RADIO ON PERUVIAN INDEPENDENCE DAY, JULY 28. HE DEDICATED THE MAJOR PART OF HIS SPEECH TO A REVIEW OF PERU'S ECONOMIC CRISIS AND TO THE MEASURES THE GOP IS TAKING TO RELIEVE THIS SITUATION. THE PRESIDENT REITERATED THE DETERMINATION OF THE GOP TO GUARANTEE THE MOST COMPLETE LIBERTY AND SECURITY FOR ASSEMBLY MEMBERS AND TO ADHERE FAITHFULLY TO ITS SCHEDULE FOR RETURNING PERU TO DEMOCRACY IN 1980. HE CALLED FOR A DIALOGUE BETWEEN THE ASSEMBLY AND THE GOP. THE FUTURE OF THAT RELATIONSHIP MAY BE DIFFICULT. IN PARTICULAR, THE POSSIBILITY OF A CONFLICT OVER MUNICIPAL ELECTIONS LOOMS. END SUMMARY.

1. DESPITE SCEPTICISM FROM VARIOUS SECTORS OF SOCIETY, MORALES BERMUDEZ NOTED, THE ARMED FORCES HAD KEPT ITS WORD AND COMPLETED THE INITIAL PHASE OF PERU'S RETURN TO DEMOCRACY BY CARRYING OUT ELECTIONS FOR THE

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CONSTITUENT ASSEMBLY. ASSERTIONS THAT THE GOVERNMENT HAS BETRAYED THE FIRST YEARS OF THE PERUVIAN REVOLUTION OR THAT CURRENT PROBLEMS HAVE FORCED THE GOP TO TURN OVER POWER TO CIVILIANS ARE BOTH FALSE, THE PRESIDENT SAID. BECAUSE THE PERUVIAN REVOLUTION ALTERED THE SOCIAL STRUCTURE OF THE COUNTRY, ELECTIONS DO NOT NOW REPRESENT A RETURN TO THE PAST BUT AN ADVANCE TOWARD A GENUINE DEMOCRACY WITH SOCIAL JUSTICE.

2. AS TO THE WORK OF THE ASSEMBLY, MORALES BERMUDEZ EXPRESSED HIS CONFIDENCE THAT THE ASSEMBLY WOULD INSTITUTIONALIZE IN PRINCIPLE THE REFORMS OF THE PERUVIAN REVOLUTION. THE PRESIDENT MADE IT CLEAR THAT HE EXPECTED SEVERAL CORRECTIONS WOULD BE MADE TO THE REFORMS INTRODUCED BY THE ARMED FORCES, BUT THAT THE BASIC PRINCIPLES OF THE REFORMS WOULD BE ACCEPTED BY THE ASSEMBLY DELEGATES. NOT TO DO SO, HE WARNED, WOULD CONSTITUTE A RETROGRADE STEP AND JEOPARDIZE AN ADVANCE TO REAL DEMOCRACY.

3. MORALES BERMUDEZ UNDERScoreD THE FACT THAT THE ARMED FORCES WOULD NOT WAIVER IN CARRYING OUT A RETURN TO DEMOCRACY AS OUTLINED UNDER ITS PLAN TUPAC AMARU. FOR THEIR PART, HE CALLED ON THE CONSTITUENT ASSEMBLY DELEGATES TO DEMONSTRATE AN AUTHENTIC, DEMOCRATIC ATTITUDE AND TO MAINTAIN AN OPEN DIALOG NOT ONLY WITH THE PEOPLE WHO HAD ELECTED THEM, BUT ALSO WITH THE GOVERNMENT OF THE POPULAR WILL AND WHOSE TRANSFORMATIONS HAD CREATED A BETTER CLIMATE FOR DEMOCRACY. THE PRESIDENT WHILE CRITICIZING SOME OF THE PAST PRACTICES OF POLITICAL PARTIES, NONETHELESS INSISTED THAT POLITICAL PARTIES ARE INDISPENSABLE TO DEMOCRACY. THE ALTERNATIVES TO POLITICAL PARTIES ARE CHAOS OR TOTALITARIAN DICTATORSHIPS HE OBSERVED.

4. PRESIDENT MORALES BERMUDEZ ALSO NOTED THAT THE GOP HAD ISSUED A NEW LAW PROVIDING FOR MUNICIPAL ELECTIONS. ELECTIONS AT THE MUNICIPAL LEVEL, HE SAID, REPRESENTED A SINGULARLY IMPORTANT STEP

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IN THE ARMED FORCES PLANS FOR A TRANSFERENCE OF POWER. TEXT OF THE LAW WAS PROMULGATED JULY 29 (ANALYSIS FOLLOWS SEPTTEL).

5. IN DISCUSSING THE ECONOMIC SITUATION, MORALES BERMUDEZ CONCENTRATED ON EFFORTS REQUIRED TO OVERCOME THE CURRENT CRISIS. DESCRIBING THE CURRENT CRISIS AS ONE OF A REDUCED LEVEL OF PRODUCTION AND AN ACCELERATED RHYTHM OF INFLATION, HE EMPHASIZED THAT AS THE CRISIS DID NOT OCCUR OVERNIGHT, ITS SOLUTION WOULD NOT COME SOON. RATHER, HE SAID, "WE MUST ACT IN A CONSTANT AND ORDERLY MANNER FOR A DETERMINED PERIOD." LATER HE CLARIFIED THE TIME INVOLVED BY STATING, "OUR OBJECTIVE IS TO INITIATE THE ECONOMIC RECUPERATION OF THE COUNTRY DURING THE PERIOD SET OUT IN THE POLITICAL SCHEDULE FOR THE TRANSFER OF POWER." (I.E., 1980).

6. THE PRESIDENT NOTED THAT SPECIAL ATTENTION WILL BE GIVEN TO THE AGRICULTURAL AND EXPORT SECTORS. INCREASED AGRICULTURAL PRODUCTION WOULD HELP CUT DOWN ON IMPORTS, PROVIDE MORE JOBS FOR PERU'S UNDER- AND UNEMPLOYED, AND, SINCE IT IS PERU'S SECOND LARGEST EXPORT SECTOR AFTER MINING, HELP THE COUNTRY'S BALANCE OF PAYMENTS SITUATION. THE GOP WOULD ENCOURAGE BOTH TRADITIONAL AND NON-TRADITIONAL EXPORTS, MORALES SAID, BUT SPECIAL ATTENTION WOULD BE GIVEN TO THE NON-TRADITIONAL EXPORT SECTOR SINCE IT

WAS STILL IN ITS INFANT STATE AND "REQUIRES APPROPRIATE STIMULI" TO SUSTAIN ITS ADVANCES. FOR THIS PURPOSE, HE NOTED, THE GOP WAS CURRENTLY STUDYING A DRAFT NON-TRADITIONAL EXPORT PROMOTION LAW.

7. MORALES ALSO STRESSED THAT PERU WOULD CONTINUE TO HAVE A PLURALISTIC ECONOMY, WHERE ALL TYPES OF BUSINESS FORMS (I.E., STATE, REFORMED PRIVATE, COOPERATIVE, SOCIAL PROPERTY) WOULD BE ABLE TO PARTICIPATE ON EQUAL TERMS. REFERRING SPECIFICALLY TO THE STATE ENTERPRISES, HE STATED THAT THEY WOULD HAVE TO BE RUN ON A COMPETITIVE BASIS, FOLLOWING THE CRITERIA OF PROFITABILITY AS ANY OTHER ENTERPRISE, AND NOT AS ANOTHER BUREAUCRATIC APPENDAGE.

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8. TURNING TO INFLATION, WHICH MORALES BERMUDEZ SAID HAD REACHED 40 0/0 DURING THE FIRST HALF OF THE YEAR AND WOULD PROBABLY BE IN THE 50-60 0/0 RANGE AT YEAR'S END, THE PRESIDENT ENUMERATED GOP STEPS TO LOWER THE INFLATION RATE: REDUCTION OF THE PUBLIC SECTOR DEFICIT, MODERATION OF MONETARY EXPANSION, PRIORITIZATION OF DOMESTIC CREDIT, GRADUAL ADJUSTMENT IN EXCHANGE RATES, AND A MORE "JUST" (I.E., REAL) DETERMINATION OF PRICES FOR BASIC PRODUCTS. MORALES ADMITTED THAT TO OBTAIN ITS OBJECTIVES REGARDING PRODUCTION AND INFLATION, THE GOP WOULD HAVE TO CLEAN UP ITS PUBLIC FINANCE SITUATION, LOWERING OF PUBLIC SECTOR EXPENDITURES, EVEN BEFORE INCREASING TAXES. TO THIS END, THE PRESIDENT SAID EFFORTS WOULD HAVE TO BE DIRECTED TO RESTRUCTURING THE STATE APPARATUS, SIMPLIFYING ADMINISTRATIVE PAPERWORK WHICH SLOWS DOWN PRODUCTIVE ACTIVITY, REDUCING COSTLY PROGRAMS, AND CUTTING CURRENT EXPENDITURES TO PROVIDE MORE RESOURCES FOR INVESTMENT.

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9. ON THE BALANCE OF PAYMENTS, MORALES NOTED THAT IN 1978, FOR THE FIRST TIME SINCE 1973, PERU WOULD HAVE A POSITIVE TRADE BALANCE. AFTER NOTING THE RESTRUCTURING OF THE DEBT WITH THE USSR CENTRAL BANK SUPPORT FROM SPAIN, MEXICO, ARGENTINA, BRAZIL AND VENEZUELA, AND THE RECENT ROLL-OVER WITH THE COMMERCIAL BANKS, MORALES SAID THAT THE GOP'S EFFORTS WILL CONTINUE "IN THE COMING MONTHS, THROUGH MULTILATERAL OR BILATERAL NEGOTIATIONS WITH THE PRINCIPAL CREDITORS." HE ADDED, "WE HAVE PLANNED TO CONVOKE, BY OCTOBER AT THE LATEST, A MULTILATERAL MEETING OF CREDITORS TO PROCEED WITH THE RESTRUCTURING OF OUR DEBT WITH OFFICIAL AGENCIES AND EXPORT CREDIT AGENCIES." HE ALSO STATED THAT BY THE END OF THE YEAR, PERU WOULD NEGOTIATE WITH ITS CREDITORS IN THE INTERNATIONAL COMMERCIAL BANKING SECTOR WITH THE OBJECTIVZ OF OBTAINING A MEDIUM-TERM CREDIT TO CANCEL THE \$185-MILLION COMING DUE JANUARY 3, 1979, AND TO OBTAIN A NEW BALANCE OF PAYMENTS SUPPORT LOAN FOR 1979 OF AT LEAST \$260 MILLION. MORALES TOUCHED ON THE NEGOTIATIONS WITH THE IMF, REPEATING THE STANDARD GOP LINE THAT PERU WILL NOT ACCEPT IMPOSED CONDITIONS, BUT INDICATING PERU'S RECOGNITION OF THE EXPECTATIONS AND TRADITIONAL BEHAVIOR OF THE INTERNATIONAL FINANCIAL COMMUNITY WITH RESPECT TO THE FUND.

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10. COMMENT. MORALES BERMUDEZ WAS SOMEWHAT DEFENSIVE IN HIS DESCRIPTION OF PERU'S ECONOMIC CRISIS. HE ADMITTED THAT THE PROBLEM DERIVED BOTH FROM INTERNAL AND EXTERNAL CAUSES (RATHER THAN ONLY THE LATTER). HOWEVER, HE WAS MORE CONFIDENT AND AGGRESSIVE IN HIS DEFENSE OF THE ARMED FORCES RECORD DURING THE ELECTION CAMPAIGN AND THE JUNE 18 BALLOTING. ASSEMBLY PRESIDENT HAYA DE LA TORRE'S CONGRATULATIONS TO THE MILITARY, THE FAVORABLE COMMENTS BY THE REPRESENTATIVE OF LATIN AMERICAN PARLIAMENTARIANS, ALONG WITH THE OPINIONS OF MOST IMPARTIAL OBSERVERS (SEPTEL) JUSTIFY THE PRESIDENT'S ASSERTION THAT IN THE FACE OF SEVERE DIFFICULTIES THE GOP SUCCESSFULLY AND IMPARTIALLY PRESIDED OVER DEMOCRATIC ELECTIONS JUNE 18.

11. IT IS NOT APPARENT WHAT IF ANY EFFECT THE PRESIDENT'S CALL FOR DIALOGUE BETWEEN THE CONSTITUENT ASSEMBLY AND THE GOP WILL HAVE. HE TOLD THE AMBASSADOR AND A GROUP OF DIPLOMATIC COLLEAGUES AT A RECEPTION ON JULY 27 THAT PRIME MINISTER MOLINA WOULD MAINTAIN LIAISON WITH THE

ASSEMBLY AND WOULD RECEIVE THE LATTER'S "SUGGESTIONS". BUT HE MWDE IT CLEAR THAT THERE WOULD BE NO INSTITUTIONALIZED PARTICIPATION BY THE ASSEMBLY IN THE PROCESS OF GOVERNMENT. WITH ONE PART OF THE ASSEMBLY THERE OBVIOUSLY WILL BE NO DIALOGUE. A FACTION OF FOCEP, AS ITS FIRST OFFICIAL ACT, INTRODUCED A RESOLUTION AT THE INAUGURAL SESSION JULY 28 CALLING FOR THE IMMEDIATE DISSOLUTION OF THE MILITARY GOVERNMENT, HTHE RETURN OF THE ARMED FORCES TO THEIR BARRACKS AND THE TRANSFER OF ALL LEGISLATIVE AND EXECUTIVE POWER TO THE ASSEMBLY.

12. THE FIRST CONFLICT BETWEEN THE GOP AND THE ASSEMBLY MAY COME OVER THE QUESTION OF MUNICIPAL ELECTIONS. THE LAW ON MUNICIPALITIES (PARA 4 ABOVE) SEEMS TO CONTEMPLATE CONVOCAION OF THESE ELECTIONS BY THE EXECUTIVE LIMITED OFFICIAL USE

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UNDER RULES IT WOULD LAY DOWN. THE PRESIDENT TOLD THE DIPLOMATS THAT HE HAD IN MIND NON-PARTISAN ELECTIONS IN WHICH THE POLITICAL PARTIES AS SUCH WOULD NOT PARTICIPATE. HAYA DE LA TORRE IN HIS JULY 28 SPEECH TO THE ASSEMBLY MADE IT PLAIN THAT HE ENVISAGED THE ASSEMBLY CALLING AND REGULATING THE ELECTIONS. AND THE PROSPECT OF APRA ACCEPTING ELECTIONS IN WHICH IT WOULD NOT COMPETE AS A PARTY APPEARS REMOTE. SHLAUDEMAN

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